


**ACTUARIAL NOTE
REGULAR SESSION 2009**

House Bill 651 HLS 09RS-230 Reengrossed/House Committee and House Floor Amendments	Preparation of this Note was directed by the Actuarial Services Division of this office
Author: Representative Armes June 8, 2009	
LA # 22.04 (REVISED) Louisiana School Employees' Retirement System	Steve J. Theriot, CPA Legislative Auditor
RE 5yr Ttl: See actuarial note	

Bill Header: Relative to the Louisiana School Employees' Retirement System (LSERS); to provide relative to the reemployment of retired school bus drivers and the actuarial cost associated with such reemployment.

Estimated Fiscal Impact:

EXPENDITURES:	2009-10	2010-11	2011-12	2012-13	2013-14	5 Yr Total
State General fund	See below	See below	See below	See below	See below	See below
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	See below	See below	See below	See below	See below	See below
Annual Total	See below	See below	See below	See below	See below	See below

REVENUES	2009-10	2010-11	2011-12	2012-13	2013-14	5 Yr Total
State General fund	See below	See below	See below	See below	See below	See below
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	See below	See below	See below	See below	See below	See below
Annual Total	See below	See below	See below	See below	See below	See below

Purpose:

To require any employer participating in LSERS to pay its pro rata share of any actuarial cost, if such employer opts to reemploy a retired school bus driver under provisions allowing such retiree to receive full benefits plus salary and to require employers to declare their intent to reemploy a retired bus driver under the 100% Rule of R.S. 11:1007.

Existing Provisions:

Current law provides that any employer who elects to reemploy a bus driver pursuant to the 100% Rule shall pay to the System "all the actuarial costs to the system of reemployment of such bus driver."

Proposed Provisions:

The proposed law provides that any employer who elects to reemploy a bus driver pursuant to the 100% Rule shall pay to the System "its pro rate share of any actuarial cost in the aggregate as determined by the System's actuary."

Related Information:

Reasons Given for the Reemployment of Retired Bus Drivers

According to various stakeholders - bus drivers, school districts, and LSERS - a school district will reemploy a retired bus driver for two reasons:

1. To provide a substitute for a regular driver who is sick or temporarily unable to drive.
2. To fill a regular position whenever a district cannot find a sufficient number of drivers who are not retired.

It is common throughout the state for school districts to hire retired drivers as substitutes. However, school districts generally will not reemploy a retired bus driver to fill a regular position unless it is forced to do so because a driver shortage. A district experiencing such a shortage has two options – reemploy a retired driver under the 50% Rule (§11:1006(B)) or reemploy a driver under the 100% Rule (§11:1007). Because it is generally less costly to the district, a school will first try to reemploy retired drivers using the 50% Rule. Only as a last resort will a district attempt to reemploy drivers under the 100% Rule.

Comparison of the 50% Rule with the 100% Rule

The following rules apply when a school district reemploys a retired driver under the 50% Rule:

1. The driver's pension is suspended for the remainder of the school year once the driver has earned an amount in that year that exceeds 50% of his pre-retirement salary.
2. The driver does not contribute to LSERS.

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- 3. The school district does not contribute to LSERS.
- 4. The driver does not accrue any benefits from LSERS.

The following rules apply when a school district reemploys a retired driver under the 100% Rule:

- 1. If he has been retired for less than one year, the retired driver’s pension is suspended until the first anniversary of his original retirement. If he has been retired for more than one year, the driver’s pension is not suspended.
- 2. The reemployed driver must contribute 7.5% of his pay to LSERS.
- 3. The school district must contribute 18.1% of the reemployed driver’s pay to LSERS.
- 4. The school district must pay to LSERS the actuarial cost, if any, associated with its employment of a retired driver under the 100% Rule.
- 5. The retired driver’s contributions without interest are returned to him when his reemployment ceases.
- 6. The retired driver does not accrue any other benefit from LSERS.
- 7. LSERS does **not** refund the employer contribution to the school district.

A school district with a driver shortage would prefer to reemploy a driver under the 50% Rule because it only has to pay the reemployed driver’s salary. If it cannot find a retired driver willing to work under the 50% Rule, and if it needs a driver badly enough, it must try to reemploy a driver under the 100% Rule. However, not only must the school pay the driver’s salary, it also must pay 18.1% of his salary to LSERS. And additionally, the school also must pay to LSERS any loss (actuarial cost) that LSERS sustains because it hired the driver under the 100% rule rather than under the 50% Rule.

Unfortunately, according tot the various stakeholders, it is sometimes difficult to find a retired driver willing to work full time under the 50% Rule because his pension from LSERS is suspended once he earns 50% of his pre-retirement salary in the school year. The retired driver may be willing to work under the 100% Rule because he can collect his salary as well as his full pension (if he has been retired for more than a year). He is required to contribute 7.5% of his salary to LSERS, but he will get this money back once he ceases reemployment.

To resolve this dilemma, some districts and drivers have reached a compromise. The district agrees to split a driving position and employ two half time drivers under the 50% Rule. By doing so, both drivers work half time or half of the year and both avoid a suspension of pension benefits. And, the school district avoids have to pay employer contributions to LSERS and it also avoids having to pay LSERS the actuarial cost associated with this arrangement.

Statistics Regarding the Reemployment of Retired Drivers

The following information was provided by LSERS:

- 1. There are about 5,000 school bus drivers in the state of Louisiana.
- 2. There about 3,500 retired bus drivers.
- 3. About 130 retired bus drivers are reemployed under the 50% Rule, with nearly all of them reemployed on a half time basis.
- 4. Only 6 to 10 districts have experienced a shortage severe enough to force them to reemploy retired drivers under the 100% Rule.
- 5. Only 10 to 15 retired drivers have been reemployed in the whole state under the 100% Rule.

Actuarial Cost Calculations

According to the actuary for LSERS, the actuarial cost that is charged to a school district for each driver hired under the 100% Rule is currently calculated in the following manner:

Actuarial Cost =	The pension benefit that must be paid to the retired driver reemployed under the 100% Rule.
minus	The employer contribution to LSERS made by the school district on the salary earned by the retired driver reemployed under the 100% Rule.
minus	The pension benefit that would have been paid had the driver been reemployed under the 50% Rule.

Under current law, this calculation is made individually for each retired driver reemployed under the 100% Rule. If the result is positive, the school district must pay LSERS the amount so calculated. If the result is negative, the district pays \$0. It does not receive any credit for situations where its employment decision results in less cost to LSERS.

According to the actuary for LSERS, the wording of House Bill 651 will allow him to calculate the actuarial cost for a given school district based on the specific facts and circumstances associated with reemployed drivers in the aggregate for that district. Instead of using the individually based calculation required under current law, he would be able to measure the extent to which changes in the reemployment of retired drivers for a given district has affected the actuarial cost to LSERS in the aggregate. This will allow LSERS to share offset losses with credits. If in the aggregate, LSERS incurs a loss (or cost), then the district must pay the cost. If in the aggregate, LSERS incurs a gain, then the district pays \$0.

As indicated above, the actuary will use a significantly different method under House Bill 651 for calculating the actuarial cost for a given district than he currently uses. This change of procedures is illustrated by the following example.

EXAMPLE

A school district currently employs two retired bus drivers to work half time under the 50% Rule. The annual salary for each driver prior to retirement was \$27,000. Each driver earns \$13,500 for one half year of work. Because neither

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driver earns more than 50% of his pre-retirement average compensation, both continue to receive their full pension of \$18,000 a year.

The school district would like to replace the two half time drivers with one full time driver but cannot find a driver who is not already retired. Nor can it find a retired driver who is willing to work full time under the 50% Rule. The district still would prefer to have one full time driver rather than two half time drivers primarily because the one driver scenario is easier to manage and schedule.

Exhibit A demonstrates the current law. The calculation of actuarial cost to LSERS under current law does not reflect the actual facts of the situation, but rather is based on the individually based cost difference between one driver under the 100% Rule versus one driver under the 50% Rule. Key points about this exhibit are given below:

- Each employee’s income for the year will be \$4,500 more under the 100% Rule than under the 50% Rule.
- The school district spends \$4,860 more per employee by reemploying the drivers under the 100% Rule than it would have spent under the 50% Rule.
- LSERS gains \$360 per driver (or \$720 in total) if the district reemploys the drivers under the 100% Rule rather than the 50% Rule.
- LSERS does not charge the school district for the reemployment of the drivers under the 100% Rule. On the other hand, the school district does not receive any credit either.
- Unless it has no other option, the school district will not reemploy retired drivers under the 100% Rule because the additional cost it incurs for employer contributions it must make to LSERS.

EXHIBIT A
 CURRENT LAW

Income/(Expense)	Two Retired Driver Reemployed Full Time under the 100% Rule			
	Employee 1	Employee 2	School District	LSERS
Salary	\$ 27,000	\$ 27,000	\$ (54,000)	\$ -
Pension	18,000	18,000	-	(36,000)
Employer Contributions	-	-	(9,720)	9,730
Employee Contributions	(2,025)	(2,025)	-	4,050
Return of Employee Contributions	2,025	2,025	-	(4,050)
Total	\$ 45,000	\$ 45,000	\$ (63,720)	\$ (26,280)

Income/(Expense)	Two Retired Driver Reemployed Full Time Under the 50% Rule			
	Employee 1	Employee 2	School District	LSERS
Salary	\$ 27,000	\$ 27,000	\$ (54,000)	\$ -
Pension	13,500	13,500	-	(27,000)
Employer Contributions	-	-	-	-
Employee Contributions	-	-	-	-
Return of Employee Contributions	-	-	-	-
Total	\$ 40,500	\$ 40,500	\$ (54,000)	\$ (27,000)
Gain or (Loss)	\$ 4,500	\$ 4,500	\$ (9,720)	\$ 720

The proposed law is illustrated by Exhibit B. The actuarial cost calculation is based on the employment of retired drivers in the school district in the aggregate rather than individually. Key points are summarized below.

- If the school district replaces two half time retired drivers reemployed under the 50% Rule with one full time retired driver reemployed under the 100% Rule, one driver resumes retirement and the other works full time and earns a \$27,000 salary. Both collect full pensions of \$18,000 a year.
- The school district still spends more under the 100% Rule because it has to make employer contributions to LSERS. However, it receives a credit of \$4,860 from LSERS.
- If the district needs to reemploy a second driver, the district may decide to reemploy him under the 100% Rule and use the credit (\$4,860) from the first driver to offset the actuarial cost that might result from the second hire.

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EXHIBIT B
HOUSE BILL 651

One Retired Driver Reemployed Full Time under the 100% Rule With the Second Driver Retired				
	Employee 1	Employee 2	School District	LSERS
Income/(Expense)				
Salary	\$ 27,000	\$ -	\$ (27,000)	\$ -
Pension	18,000	18,000	-	(36,000)
Employer Contributions	-	-	(4,860)	4,860
Employee Contributions	(2,025)	-	-	2,025
Return of Employee Contributions	2,025	-	-	(2,025)
Total	\$ 45,000	\$ 18,000	\$ (31,860)	\$ (31,140)
Two Retired Drivers Reemployed Half Time under the 50% Rule				
	Employee 1	Employee 2	School District	LSERS
Income/(Expense)				
Salary	\$ 13,500	\$ 13,500	\$ (27,000)	\$ -
Pension	18,000	18,000	-	(36,000)
Employer Contributions	-	-	-	-
Employee Contributions	-	-	-	-
Return of Employee Contributions	-	-	-	-
Total	\$ 31,500	\$ 31,500	\$ (27,000)	\$ (36,000)
Gain or (Loss)	\$ 13,500	N/A	\$ (4,860)	\$ 4,860

The examples shown in Exhibits and B result in credits to LSERS that under HB 651 will potentially be shared with school districts. Other example could be shown that would result in losses to LSERS. It is important to note that credits shown in the above examples will be available to a school district only if the district also has reemployed retired driver situations that produce losses.

Actuarial Impact:

The actuarial cost associated with House Bill 651 cannot be determined with any degree of precision. There is a cost to LSERS because it will be sharing credits with school districts that it otherwise would not share. The cost could be negligible if the proposed law is used exclusively to solve driver shortage problems that exist in a few districts. The cost could be material, if the school districts and drivers find a way to use the legislation to make the use of the 100% Rule commonplace. At the end of the day, if LSERS costs increase, the employer contribution requirement will increase also. And, ultimately, the taxpayer, either locally or across the state, will pay more.

Actuarial Analysis:

The actuarial cost associated with House Bill 651 could range from negligible to significant. The cost will be negligible if the driver shortage is only limited to a few school districts. The cost associated with the conversion of 65 pairs of half time drivers to 65 full time drivers with the other 65 drivers returning to retirement will be quite small, to the point of being negligible. However, if drivers and school districts find a way to use HB 651 to their advantage, costs could escalate significantly.

It is assumed that drivers and school districts will convert retired drivers from the 50% Rule to the 100% Rule. For example:

1. A school district has 4 drivers who are eligible to retire and who may actually retire at the end of the school year. The school does not want to lose the services of these drivers, nor does it want to spend the effort to find 4 new drivers.
2. The school decides to make the following offer to the 4 drivers.
 - Retire at the end of the school year.
 - The district will rehire all four on a half time basis for one year under the 50% Rule.
 - After one year, the district will rehire them on a full time basis under the 100% Rule.
 - With the enactment of House Bill 651, the school potentially will receive a credit from LSERS for converting four 50% Rule drivers to two 100% Rule drivers.
 - The school then uses this credit to offset the actuarial costs associated with rehiring the remaining two drivers under the 100% Rule.

The following conclusions can be drawn from the above analysis:

1. LSERS will provide school districts with credits under HB 651 for situations which do not currently require credits. This is a cost to LSERS and a savings to districts.
2. Conversion from the 50% Rule to the 100% Rule will require employer contributions from the school district to LSERS.
3. As a result, it is assumed that school districts will use the 100% Rule more under HB 651 than they do currently.

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4. If increased usage is limited to districts that currently have a real driver shortage, then the actuarial cost of HB 651 is negligible.
5. If there is any advantage to be gained under HB 651, it is assumed that school district and drivers together will figure out how to use it effectively for their own best interests, and receive credits from LSERS that otherwise would not be available.
6. If schools and drivers do figure out a way to use the new rules to their advantage, and the use of the 100% Rule becomes widespread, the cost to LSERS will become significant, and actuarial costs will increase. It is important to note, however, that less than 10 districts currently have a shortage of drivers and that to use the new rules the district must certify to the Legislative Auditor that a shortage exists.

Fiscal Impact:

The fiscal impact cannot be determined.

Dual Referral Rules:

Estimated Fiscal Impact >= \$500,000? **NO**